MEDILL REPORTS WASHINGTON

Story URL: http://news.medill.northwestern.edu/washington/news.aspx?id=125513
Story Retrieval Date: 4/13/2009 12:55:01 PM CST

Maryland county mulls plan to ease credit for small businesses

by **LIAM MARTIN**
April 09, 2009

WASHINGTON--One county in Maryland is taking a page out of President Barack Obama's manual for fighting the ongoing credit crunch. Namely, with a heavy dose of liquidity.

The Montgomery County Council, in an ongoing effort to reduce the growing number of empty store fronts and retail holes in the region, is mulling a recommendation from area economic leaders to inject funds into local banks, in exchange for agreements to increase lending to the county's small businesses.

"Local bankers have shared their frustrations that they would be more than happy to assist the county in helping our small-business community," said council vice president Roger Berliner, who brought the idea to the executive branch on Monday.

"But they don't have the liquidity at the moment. If the county were to deposit dollars that they're currently depositing in large banks in their banks, they'd be more than willing to enter into agreements" to then lend those funds to area businesses, Berliner said.

Sound familiar?

The federal government, under both Obama and President George W. Bush, has been injecting money — more than a trillion dollars' worth, in fact — into banks and other financial institutions since October.

The goal, as in Montgomery County, is to enhance the flow of credit to businesses and households, both wracked over the past 19 months by a perfect storm of foreclosures, stingy credit lines, massive job losses, and plunging consumer confidence.

According to Berliner, though, that's where the similarities in the "funds-for-loans" programs end.

"The government's came without, perhaps, the conditions that are necessary to ensure that those dollars actually get loaned back out," Berliner said. "We would hope to learn from their efforts."

Both Obama and Bush — as well as their economic teams, including new Treasury Secretary Timothy Geithner — have been criticized recently for failing to back up capital injections in banks with strict enough guarantees on their use.

According to both Berliner and Ginanne Italiano, president of the Greater Bethesda-Chevy Chase Chamber of Commerce, a number of local banks in Montgomery County have already expressed a willingness to take part in a more structured arrangement.

The more important distinction: Berliner's recommendation doesn't call for printing new monies. The county coffers, stuffed with an estimated $4 billion of revenue per year, are already equipped to handle the program, which Berliner estimates would deposit "tens of millions" of dollars into qualifying local banks. None of it — unlike Obama's and Bush's plans — would require additional tax burdens on constituents.

The results of the effort have been mixed so far.

The job market, for one, remains in shambles. The Bureau of Labor Statistics announced last week that unemployment crept up to 8.5 percent in March, the highest mark in 26 years, and placed the total number of jobs lost since the recession began in December 2007 at more than 5 million.

Credit, though, has shown preliminary signs of a thaw, as short-term funding markets ease and interest rates touch new all-time lows almost by the week, with the average on a 30-year fixed-rate mortgage now sitting at 4.78 percent.

Berliner and Italiano are both cautiously optimistic the county recommendations, devised last week after a March 26 meeting of local business leaders and council members, will spell similar improvements in Montgomery County.

"You need to have deposits in the local banks in order for those banks to be able to provide loans to the small businesses, and do it at an attractive rate," Italiano said. "This is how we can help businesses help each other."

Serving the cause will be the fact that the county is already far better off than the nation as a whole. In fact, with an unemployment rate in February of 5.1 percent and an average weekly wage of $1,100 in the second quarter of 2008 (the latest available figures), Montgomery County boasts the best-performing economy in the state.

Still, the "It's all relative" perspective doesn't serve as much of a comfort to county citizens who have lost their jobs (unemployment in February, while low, was up 2.4 percentage points from February 2008), or to local businesses forced to shutter their doors in recent months.

Sid Kramer, president of Kramer Enterprises in Silver Spring, Md., runs more than 100 commercial real estate properties throughout the region. A former county executive, Kramer took part in Berliner's March 26 summit: He said this is the worst economy he's seen in decades.

"I would estimate that 30 to 40 percent [of area businesses] have either closed, are on the brink of closing, or are being carried by their landlords," meaning tenants aren't paying rent. "It would be very helpful to both the tenant and the landlord to carry the responsible tenants through this downturn in the economy."

Kramer and Berliner — and the area businesses they're hoping to salvage — aren't yet guaranteed to test that theory, as the plan is still in the early stages. But Berliner noted both county executive Ike Leggett and newly appointed economic director Steve Silverman are "favorably disposed" to the idea, and said he expects a response within two weeks.

"It certainly better be within a week, or two weeks at the most, because this is an issue that calls for prompt action on all our parts."

Liam Martin/MNS

Community leaders in Montgomery County discuss the state of the region's economy, and their plans for unlocking credit at a time of widespread fear about the financial markets

Related Links

Official Web site: Montgomery County Council